2001 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, February 2002

POLAND

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP	155,200	157,700	176,400
Real GDP Growth (pct)	4.1	4.8	2.0
GDP by Sector (pct):			
Agriculture	4.5	2.9	N/A
Manufacturing 2/	36.5	31.7	N/A
Services	46.3	53.1	N/A
Government	12.7	12.3	N/A
Per Capita GDP (US$)3/	4,014	4,082	4,564
Labor Force (000s)	17,214	17,300	N/A
Unemployment Rate Year-end (pct)	13.1	15.0	17.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	19.3	11.8	15.0
Consumer Price Inflation (annual average)	7.3	10.1	6.0
Exchange Rate (PLN/US$; annual average)			
Official	3.97	4.35	4.12
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) 4/	26.3	28.3	32.0
Exports to United States (US$ billions) 5/	0.8	1.0	1.1
Total Imports CIF (US$ billions)	40.7	41.4	43.9
Imports from United States (US$ billions) 5/	0.8	0.7	1.0
Trade Balance (US$ billions)	-14.4	-13.1	-11.9
Balance with United States (US$ billions) 5/	0.0	0.3	0.1
External Public Debt (US$ billions)	32.1	33.0	N/A
Fiscal Deficit/GDP (pct)	2.0	2.2	4.0
Current Account Surplus/Deficit/GDP (pct) 6/	-7.5	-6.3	-5.8
Debt Service Payments/GDP (pct) 7/	3.4	4.0	4.5
Gold and Foreign Exchange Reserves			
(US$ billions) 8/	27.3	25.5	28.0
Aid from United States (US$ millions) 9/	26.3	10.0	70.0
Aid from Other Sources (US$ millions) 10/	300	820	900

1/ Polish government estimates as of August 2001, unless otherwise noted.
2/ Manufacturing including construction.
3/ Per capita GDP given in nominal terms.

4/ Polish government trade figures, without transshipments via third countries.
5/ U.S. Dept. of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
6/ Including estimated unrecorded trade.
7/ Debt service includes paid interest and principal.
8/ Data available through August 2001.
9/ U.S. government estimate; includes economic and military assistance. In 2000, the United States provided Poland with law enforcement and export control programs worth about $1 million**,** military assistance programs totaling about $12.2 million, and excess defense articles valued at about $56 million**.**
10/ EU declared assistance; includes PHARE; 2001 includes ISPA and SAPARD.

1. General Policy Framework

Over the past decade, Poland has transformed its economy with generally sound macroeconomic management and a commitment to structural reforms, making it one of the most successful and open transition economies. After four consecutive years of annual six to seven percent growth, the Polish economy slowed in 1998, in large part due to the Asian and Russian crises. Since then, Poland's economy has grown more slowly due to declining domestic demand (both consumption and investment); GDP growth for 2001 is estimated at below two percent. Over the last decade, the private sector has grown as a result of privatization and liberalization, but many of the larger, publicly-owned enterprises inherited from the communist era, notably those in such sectors as coal mining, steel, and rail transport, remain in need of further restructuring. Polish agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. Government estimates indicate the shadow "gray economy" now generates around 15-16 percent of GDP.

Government Priorities: A member of the WTO, OECD, and NATO, Poland now considers membership in the European Union (EU) one of its highest priorities. The process (supported by a majority of Poles) affects most economic policies, from the budget to reforms. By fall 2001, Poland had provisionally closed 17 of 29 negotiating chapters. Poland hopes to close the remaining chapters by the end of 2002, in time for accession on January 1, 2004. Poland continues to liberalize its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements. Poland also seeks improvement in bilateral economic relations with Russia, Ukraine, and China.

Fiscal Policy: Reforming Poland's public finances is one of the highest priority challenges facing the government elected in September 2001. While Poland's central government debt, at 40 percent of GDP, remains moderate, the combination of slower economic growth and new spending commitments enacted by the parliament in recent years has put the budget under strain. The original draft forecast for the 2002 government deficit, before corrective measures, was over ten percent of GDP. The government is seeking to cap the deficit at five percent. New public borrowing has been limited in recent years due to sizeable privatization revenues. However, the number of companies to be privatized is shrinking rapidly and revenues from this source will dry up within the next few years, forcing action to curb the budget deficit to prevent the government debt ratio from approaching the constitutional limit of 60 percent of GDP. The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. The government's flexibility in curbing public spending is limited, however, by Poland's generous social insurance system (retirement, disability, unemployment, and welfare benefits), debt service obligations, and the costs of the four major reforms (affecting the health, education, pension, and administrative systems) implemented in 1998-99. Poland's overall public spending is governed by the 1998 Act on Public Finances, which clarifies the responsibilities of the various budgetary players, sets measures to improve the transparency of public finances, establishes rules for local governments, and prepares for Poland's EU accession. It also establishes procedures to be followed if total public debt, including government guarantees, exceeds certain limits.

Monetary Policy: An independent, 10-member Monetary Policy Council (MPC) sets monetary policy, which is implemented by the NBP, using a formal inflation target. Increasingly restrictive fiscal and monetary policies reduced annual average inflation from 37 percent in 1993 to 10.1 percent in 2000. In 1999, average CPI inflation was 7.3 percent, but an acceleration in late 1999 and early 2000 led the MPC to miss its targets in both years. In response, monetary policy was tightened significantly, with the MPC raising rates by a total of six percentage points from late 1999 to the fall of 2000. As a result of both tighter money and the slowing economy, inflation has dropped significantly, with the estimated CPI increase for 2001 of 4.7 percent, below the MPC's six-to-eight percent target range. The target for 2002 is five percent and that for 2003 is below four percent. Despite substantial reductions in nominal interest rates in 2001 (a cumulative 6.0 percentage points through October), real interest rates have remained high, dampening economic growth and keeping the Polish zloty relatively strong.

2. Exchange Rate Policies

On April 12, 2000, the NBP abandoned the crawling peg it had used since 1991 and allowed the zloty to float freely. The decision was in line with government plans to let the zloty find its equilibrium level before applying for participation in the European Exchange Rate Mechanism and then the European Monetary Union. As the zloty had been floating within the 15 percent band for several years without NBP intervention, the decision to float did not have a significant impact on the foreign exchange market. The government reserves the right to intervene in the market to prevent destabilizing swings.

Poland achieved current account convertibility in 1995, eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys in 1996, removed most limits on capital account outflows by Polish citizens in 1997, and enforced a new foreign exchange law in January 1999. Restrictions were removed on foreign exchange transactions for resident portfolio investments, investment in securities issued in OECD countries, and operations in negotiable securities, including collective investment securities, with some exceptions, such as transactions in debt instruments with a maturity of less than one year and derivatives. The law authorizes further liberalization measures, but also contains safeguards to allow the government to temporarily re-establish restrictions under certain circumstances, such as extraordinary risk to the stability and integrity of the financial system. Poland's remaining restrictions on capital movements, other than foreign direct investment flow and short-term capital flow, are limited to real estate investment abroad and in Poland. The remaining restrictions on foreign direct investment concern foreign acquisitions of certain categories of real estate, indirect ownership of Polish insurance companies, air and shipping transport, broadcasting, certain telecommunication services, and gaming.

3. Structural Policies

Prices: Most price subsidies and controls disappeared during Poland's 1990 economic shock therapy, although those on public transportation, coal, and some pharmaceuticals continue. The government hopes eventually to eliminate all controls, providing interim support for coal and some agricultural products, and allowing new regulatory bodies to play a central role in setting prices in the energy and telecommunications sectors. The government has also taken steps to promote greater competition in the Polish markets for oil and telecommunications services, where price rises contribute considerably to inflation.

Taxes: Poland's total tax burden, at 41 percent of GDP, is comparable to that of many Western European countries. However, only about half of this amount is collected by the central government, with the remainder going to the social insurance system, local governments, and various special-purpose extra-budgetary funds. A tax reform package approved in late 1999 significantly reduced corporate income taxes and streamlined exemptions. Value-Added Tax (VAT) rates were also revised to meet EU rules, but a companion bill to reduce and simplify personal income taxes was vetoed by the president.. The corporate income tax rate was reduced to 30 percent in 2000, 28 percent in 2001, 24 percent in 2003, and 22 percent in 2004. Personal income tax rates remain unchanged at 19, 30, and 40 percent. The new government, which took office in October 2001, is expected to introduce changes to the tax system and undertake deep reforms of public finances. Under pressure from the EU, Poland amended the rules governing special economic zones (SSEs) that permit tax breaks for foreign investment. These new regulations are less advantageous for investors than the old rules, but more compliant with EU mandates. Under the new regulations, which entered into force January 1, 2001, new companies registered in SSEs are eligible to receive grants amounting up to 50 percent of initial capital. The new regulations are not retroactive.

Regulatory Policies: Poland's regulatory regime is being harmonized with EU standards. Existing regulatory structures are variously faulted for the excessive burden imposed on businesses, lack of transparency and predictability, and lack of effectiveness. An independent regulator for the telecommunications sector began functioning in 2001. Current concerns include product certification standards and pharmaceutical registration and pricing mechanisms, which effectively impede market access.

4. Debt Management Policies

Poland improved its foreign debt situation through rescheduling agreements with the Paris Club (1991) and the London Club (1994), which reduced Poland's debt by nearly half. As of July 2001, Poland's total official foreign debt was $28.2 billion, including $20.1 billion to the Paris Club, $2.2 billion to other institutions (IMF, World Bank, EBRD and BIS), $4.1 billion in Brady Bonds, and $1.7 billion in other foreign bonds. Since 1995, Poland has held investment grade ratings from various agencies and has been a net borrower on the world capital markets at a small premium over German bond rates. In September 2001, Poland had a Moody’s rating of Baa1 and a Standard and Poor’s rating of BBB+ (stable outlook). Debt servicing remains relatively low both in relation to government expenditure (12-14 percent) and GDP (3 percent), although amortization payments are scheduled to rise significantly in the next few years. Foreign debt servicing represents a sustainable proportion of exports of goods and services. As of mid-2001, the private sector had an estimated $30 billion in foreign debt. The share of short-term foreign debt in Poland's total foreign debt oscillates around 13.5 percent and has remained almost unchanged since 2000. Poland's total state debt (foreign and domestic) amounted to 40 percent of GDP in July 2001. The Ministry of Finance plans to establish a public debt risk management agency similar to those operating in other OECD-countries.

5. Significant Barriers to U.S. Exports

Tariffs: Poland's tariff policy reflects a trend toward liberalization as required by its WTO commitments and a strong bias in favor of its regional free trade partners (EU, EFTA, CEFTA, Estonia, Latvia, Lithuania, Israel, and Turkey). In 2000, duty-free industrial imports from the EU and Poland's free trade partners accounted for 72.3 percent of total industrial imports. By the end of 2000, Poland had eliminated most tariffs and trade barriers on industrial goods from the EU and EFTA countries (except cars and steel products). Poland and the EU agreed in 2000 to eliminate tariffs on a range of unprocessed agricultural goods and are negotiating a similar agreement on processed agricultural products. The reduction or elimination of tariff and trade barriers with other free trade partners is also continuing. U.S. exporters in a broad range of industry sectors have complained that the growing differences between Most Favored Nation (MFN) tariffs applied to U.S. goods and preferential tariffs applied to goods from the EU and Poland's free trade partners have diminished their business prospects and ability to compete on the Polish market. While giving the EU and its free trade partners preferential access, Poland has maintained MFN tariffs at levels that often exceed the EU common external tariff rates that Poland must adopt upon joining the EU. Thus, many U.S. firms face a bigger competitive disadvantage in Poland than in the EU. The U.S. and Polish governments have been engaged for some years in an effort to address this and other bilateral trade issues. In June 2001, they agreed to a package of measures including the suspension in 2002 of Polish tariffs on a limited range of industrial and agricultural goods of interest to U.S. exporters, continued U.S. support for Poland's participation in the Generalized System of Preferences (GSP) program until it joins the EU, and the creation of a formal dialogue for addressing bilateral trade concerns.

Import Licenses: Licenses are required for strategic goods on Wassenaar dual use and munitions lists, as well as for fuel and tobacco. Imports of U.S. grain and oilseed imports, which had amounted to some $100 million in 1997, are blocked by Poland's zero tolerance phytosanitary inspection policy for several common weed seeds. Scientific evidence indicates that such weed seeds already exist in Poland and neighboring countries, yet Polish authorities have been unwilling to relax their zero tolerance policy. While neighboring EU countries do not have a zero tolerance policy on weed seeds, it remains unclear whether Poland will be required to adopt the less restrictive EU tolerance levels when it joins the EU. Certificates from the United States Department of Agriculture are required for meat, dairy products and live animals. Poland banned imports of meat and bone meal (MBM) in February 2001from countries that have Bovine Spongiform Encephalopathy (BSE). Previously, Poland had annually imported upwards of 300,000 tons of MBM valued at $100 million, virtually all from the EU. Poland refused to permit imports of U.S. MBM as an alternative, despite the fact that the United States has no reported cases of BSE, unless U.S. MBM undergoes more costly heat and pressure treatments outlined in European Commission decision 96/449/EC. Poland also banned imports of gelatin of bovine origin from all countries in February 2001 because of BSE concerns. Poland implemented regulations on biotechnology and genetically modified organisms (GMO), following EU norms in mid-2001.

Services Barriers: Poland has made progress, but many barriers remain, especially in audiovisuals, legal services, financial services, and telecommunications. In November 1997, the government enacted a rigid 50 percent European production quota for all television broadcasters, raising concerns about liberalization commitments made by Poland upon joining the OECD. However, legislation passed by the Parliament in 2000 requires broadcasters to meet the 50 percent quota only where practical, thereby bringing Polish regulations into line with EU directives. In January 1998, new laws on banking and the central bank came into force. As a condition of its accession to the OECD, Poland allowed firms from OECD countries to open branches and representative offices in the insurance and banking sector in 1999, as well as subsidiaries of foreign banks. The government began to sell stakes in the state telecommunications monopoly (TPSA) in October 1998, and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Parastatal enterprise France Telecom became TPSA's largest shareholder in 2001, but the government still retains significant control. Several competitors now provide local phone service and domestic long distance service. Thus far, government regulatory agencies' efforts to curb anti-competitive behavior by TPSA, which retains a monopoly over interconnection and international long distance, have been insufficient.

Standards, Testing, Labeling, and Certification: Harmonization of standards, certification, and testing procedures with those of the EU, including greater reliance on voluntary standards, is now the main objective of Polish standards policy. Under the 1997 European Conformity Assessment Agreement, Poland agreed to introduce an EU-compatible certification system; to gradually align its regulations and certification procedures with the those of the EU; to remove from mandatory certification those products free from certification requirements in the EU; and to automatically provide a “B” safety certificate to EU products subject to mandatory certification. However, there have been delays in implementing these commitments. Currently, products manufactured in Poland or imported into Poland for the first time that can be of potential danger or serve to protect or save health, life or environment, are subject to certification with a reserved safety mark of Polish Research and Certification Center or to issuance by the manufacturer at his risk a declaration of compliance. A Polish "B" safety certificate has been required since 1997 for imports and domestic products and affects about one third of all products marketed in Poland. Poland does not automatically accept the EU "CE" mark or other international product standards. Non-acceptance of many international standards, certification, and conformity testing procedures are associated with long delays, involving expensive testing processes. Poland has bilateral mutual recognition agreements on standards and conformity testing procedures with Ukraine, China, Belarus, Germany, the Czech Republic, the Russian Federation, Italy, and Switzerland, which allow the importation of certain products from these countries based on conformity statements issued by the foreign producer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export grains to Poland. Pharmaceuticals and medical materials are subject to entry in the Register of Pharmaceuticals and Medical Materials, which requires positive results of laboratory tests.

Investment Barriers: Lack of transparency and clearly stated rules in government decision-making processes, as well as outright corruption, are widely recognized as informal barriers to foreign investment. Polish law permits 100 percent foreign ownership of most corporations. However, some restrictions remain on foreign investment in certain "strategic sectors," such as mining, steel, defense, transport, and energy, while certain controls remain on other foreign investment. Broadcasting law still restricts foreign ownership to 33 percent, while foreign ownership of air transport is confined to 49 percent. The cap on foreign ownership in telecommunications was lifted on January 1, 2001. No foreign investment is currently allowed in gambling. The privatization of the energy, steel, and telecommunications sectors envisions significant foreign investment, as does a restructuring plan for the defense industry. The privatization process lacks transparency and relatively few U.S. firms have shown interest in investing in state-owned firms, in part because of transparency concerns but also because of the unstable regulatory environment. As a result of OECD accession, foreigners in Poland may purchase up to 4,000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent (not always automatic) of both the Defense and Agriculture Ministries.

Government Procurement Practices: Poland's government procurement law is modeled on the UN procurement code and is based on competition, transparency, and public announcement, but does not cover most purchases by state-owned enterprises. In actual practice, many government procurements are carried out in a non-transparent manner that has produced highly publicized accusations of corruption. The exception for state-owned enterprises is a loophole that often produces questionable tender results. Single source exceptions to the stated preference for unlimited tender are allowed only for reasons of state security or national emergency. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded. Since September 1997, Poland has been an observer to the WTO's Government Procurement Agreement (GPA). In order to accede to the GPA in accordance with its EU accession requirements, Poland is expected to start GPA accession negotiations in 2002. In June 2001, the Law on Public Procurement has been amended to conform to the EU regulations.

Customs Procedures: Since signing the GATT customs valuation code in 1989, Poland has a harmonized tariff system. The customs duty code has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement, FTAs with Israel, Croatia, Latvia, Estonia, Lithuania, and Turkey, as well as GSP for developing countries, grant firms from these areas certain tariff preferences over U.S. competitors. Some U.S. companies have criticized Polish customs' performance, citing long delays, indifference, corruption, incompetent officials, and inconsistent application of customs rules. A new customs law took effect in January 1998, but some problems remain, including the amount of paperwork required and the lack of electronic clearance procedures. A new, EU-compatible tariff classification system to be introduced in January 2002 may cause some initial confusion.

6. Export Subsidies Policies

With its 1995 WTO accession, Poland ratified the Uruguay Round Subsidies Code and eliminated earlier practices of tax incentives for exporters, but it still offers drawback levies on raw materials from EU and CEFTA countries which are processed and re-exported as finished products within 30 days. Some politically powerful state-owned enterprises continue to receive direct or indirect production subsidies to lower export prices. Polish industry and exporters criticize the government for too little export promotion support. Poland's export insurance agency has limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts.

7. Protection of U.S. Intellectual Property

While Poland has significantly improved its legal framework for intellectual property rights protection, this progress is overshadowed by insufficient enforcement and recent moves to abolish the confidentiality of proprietary test data for pharmaceutical drugs ("data exclusivity"). The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law that offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, and audio-visual works, as well as industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's TRIPS obligations, were enacted in July 2000. The amendments provide full protection of all pre-existing works and sound recordings. Amendments designed to bring the Industrial Property Law, which protects patents and trademarks, into compliance with TRIPS obligations were implemented in August 2001.

Poland suffers from high rates of piracy, in large part due to weak control of its eastern border and reluctance to clean up or shutdown large outdoor markets. Most pirated materials available, particularly CDs and CD-ROMs, are produced in the former Soviet Union and Romania. With better laws in place and improved cooperation between government and industry, enforcement has improved in recent years. Nevertheless, the cumbersome judicial system and the general lack of knowledge about IPR remain impediments. Criminal penalties increased and procedures for prosecution were somewhat simplified when the amendments to the Copyright Law took effect. Industry associations estimate 2000 levels of piracy in Poland to be: 33 percent for sound recordings, 25 percent for motion pictures, 54 percent for business software, and 85 percent for entertainment software. Poland is currently on the "Special 301 Watch List" due primarily to ineffective enforcement.

Separately, pharmaceutical producers are affected by substandard data exclusivity and patent protection for their products. Until late 2001, test data submitted to the government to register a drug generally received three years of data exclusivity. However, in a number of cases, the data exclusivity period was actually less. In a turn for the worse, Parliament passed and the President signed new EU accession related legislation in fall 2001 that, among other things, abolishes the period of data exclusivity until Poland joins the EU. This law clearly violates Poland's WTO TRIPS commitments and stands to have a negative impact on foreign R&D pharmaceutical companies operating in Poland. The U.S. government is actively engaged with the Polish government in an effort to restore the period of data exclusivity. To join the EU, Poland will also have to change its law to provide for supplemental protection certificates (patent extensions). The adoption of EU compatible patent legislation and the re-registration of Polish pharmaceuticals according to EU-compatible criteria are problematic issues in Poland's accession process.

8. Worker Rights

Poland's 1996 Labor Code sets out the rights and duties of employers and employees in modern, free-market terms.

a. The Right of Association: Polish law guarantees all civilian workers, including military employees, police officers, and border guards, the right to establish and join trade unions of their own choosing, and the right to join labor organizations and to affiliate with international labor confederations. The number of unions has remained steady over the past several years, although membership appears to be declining.

b. The Right to Organize and Bargain Collectively: The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity, although numerous cases have been reported of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. Prohibition of Forced or Compulsory Labor: Compulsory labor does not exist, except for prisoners convicted of criminal offenses.

d. Child Labor Practices: Polish law strictly prescribes conditions under which children may work and sets the minimum age at 15. Forced and bonded child labor is effectively prohibited. The State Labor Inspectorate reported increasing numbers of working children and violations by employers who underpay or pay late.

e. Acceptable Conditions of Work: Unions agree that the problem is not in the law, which provides minimum wage and minimum health and safety standards, but in insufficient enforcement by too few labor inspectors.

f. Rights in Sectors with U.S. Investment: Firms with U.S. investment generally meet or exceed the above five worker rights standards. In the last several years, there have been only a few cases where Polish unions have charged such companies with violating Polish labor law, and cases have been largely resolved. Existing unions usually continue to operate in Polish enterprises that are bought by American companies, but there tend to be no unions where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	4

Total Manufacturing		1,171
Food & Kindred Products	106	
Chemicals & Allied Products	367	
Primary & Fabricated Metals	56	
Industrial Machinery and Equipment	-4	
Electric & Electronic Equipment	1	
Transportation Equipment	5	
Other Manufacturing	640	
Wholesale Trade		335
Banking		1,014
Finance/Insurance/Real Estate		89
Services		20
Other Industries		110
TOTAL ALL INDUSTRIES		2,743

Source: U.S. Department of Commerce, Bureau of Economic Analysis.